

Submission to the Inquiry into First Home Ownership

David A M Green (submission #2)

In acquiring a first home, a proportion of the market uses building services directly. That is, people engage a builder through a contract to supply a house, or a house and land 'package' for their occupation.

Irrespective of price, but having an impact in the final benefit value obtained, is the method of contracting usually used in such arrangements.

In New South Wales, for instance, there is a standard form contract which is used by Statute. In other states, there may be similar approaches.

Whether there are or not, these comments stand, I believe.

The consumer is at an extraordinarily disadvantage in relationships with the home building industry. This arises because the consumer, typically, is not a repeat, but is a 'one-off' purchaser and therefore cannot use the possibility of continuing business as an incentive to performance.

The contracts they are forced into (either by statute or on a 'take it or leave it' basis) usually place the consumer at a disadvantage either because they are adversarial in nature, or the risk allocation favours the builder.

Consumers have little practical means of redress, which state governments have acted to repair using various forms of alternative dispute resolution and mandatory insurance requirements. Nevertheless the consumer can often be left exposed when a builder's performance falls below contractual or fair trading standards.

Making up for the deficiencies applies a cost firstly to the consumer, in most cases, and ultimately, the economy. More resources than necessary being used in providing homes through correcting sub-standard work.

Many of the deficiencies may be due to lack of builder skill either technically, or in business, or lack of desire on the builders part, or poor contract relationships between the parties because of misunderstandings.

The inquiry might turn its mind to these issues, although it is probably obvious that the implications for affordability may not be as great as presented by other issues.

Steps that might be taken to remedy this situation in terms of contract form is through the use of contracting approaches which distribute risks more evenly, perhaps favouring the consumer who is inexperienced in the field and usually at an economic disadvantage to the builder. Co-operative contracting may be helpful, causing the parties to work more closely together, as may the use of a payment system which leaves the larger payment to the end of the project to provide a monetary incentive for completion. Properly sized, the consumer would never be in position where they would be without the funds to complete the works. A mandatory builder rating system by customers could also be useful. This might measure timeliness overall, extensions of time, (other than due to weather), quantum of variations, quantum of 'extras' not due to the consumer's informed decisions, build quality and builder co-operativeness, and accessibility, delivery rate on meeting promises and attendance of any required site or customer meetings.

The ratings would then be available to any prospective customer. High rated builders may find they are able to charge a premium for a reliable service, bringing a market incentive to performance.

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